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SUBJECT: Wal-Mart Discusses Product Safety on a Global Scale

BUSINESS-SENSITIVE

11. (SBU) SUMMARY AND COMMENT: As part of our series on consumer product safety, we paid a visit to Wal-Mart's Global Procurement team to discuss the company's Quality Assurance program and ways in which its work should assure an increasingly skeptical foreign market about the firm's ability to monitor the goods it sells. Besides a rigorous auditing process, Wal-Mart works overtime, literally, to educate its suppliers about product quality and safety. The company is confident that its exports from China for its North American stores meet the standards - and expectations - of that market. Wal-Mart executives confidently answered questions regarding the quality and safety of retail products. As further evidence of its confidence, Wal-Mart's head of global procurement invited Congenoffs to participate on an upcoming audit of one of its suppliers. COMMENT: On several occasions, Wal-Mart executives did speak about large companies that had seen their reputations damaged by real and perceived lapses in quality and safety. While Wal-Mart executives reiterated that quality, safety, and ethics were important to Wal-Mart, it seems just as likely that protecting the company's business reputation has become as important as its focus on everyday low prices. END SUMMARY AND COMMENT.

Products for U.S. Stores from Two Procurement Sources

12. (SBU) The Director of Administration for Global Procurement, Kenny Chen, told us July 26 that Wal-Mart's supply chain for North American stores is separate from that of its China stores. North American stores receive their products from two separate sources. -- The first is from U.S. importers that do not directly purchase products on behalf of a certain company, but instead typically supply large retailers such as Wal-Mart, Target, and K-Mart. Chen remarked that these products may come from China, or from other countries. -- The second source is Wal-Mart's 2,500 direct suppliers in China, which provide a majority of Wal-Mart's products for retail in North America, Taiwan, and Japan.

Not Made in China: North American Stores Procure
Food Products from Local Importers and Producers

13. (SBU) Market differentiation, which means not only segmenting the market by consumer income and taste but also by country, is a guiding business principle for Wal-Mart and directs the company's procurement strategy. Vice President of Wal-Mart Operations Shawn Gray pointed out that since Wal-Mart tailors its products to the market, it regularly procures from local suppliers. These suppliers, which include food importing companies that sell to major grocers, allow Wal-Mart flexibility to meet customer demand. To illustrate his point, Gray provided an example of how perceptions regarding the "freshness" of food differ between markets. American consumers put less of a premium on the freshness of their food than Japanese or Chinese counterparts. When it comes to food, Gray

doubted that Wal-Mart could supply one level of freshness and quality to all of its markets and remain price competitive. Note: Wal-Mart does not export foodstuffs from its Chinese suppliers for sale in the United States. End Note.

Retail Standard or Standard Retail?

14. (SBU) In response to our question about whether Wal-Mart uses a particular international or industry standard, Chen told us that Wal-Mart follows the standard in use in each individual market. He lamented the difficulty of procuring products which required an understanding and decision with regard to so many different safety standards and levels of quality, and noted that Wal-Mart is working with competitors and suppliers to create a common retail standard. Chen believes this would reduce costs during procurement and raise quality. Gray interjected to reiterate that high quality and "Everyday Low Prices" are Sam Walton's two guiding principles.

Doing Business with Wal-Mart

15. (SBU) Wal-Mart employs a rigorous process to screen both regular and potential suppliers. Chen stated that a Quality Assurance (QA) engineer will visit a supplier to audit its operations and select a product sample to be tested. This product is then tested by a third-party testing company in Hong Kong against Wal-Mart's quality and product safety standards. These tests are done periodically to ensure compliance. In each instance, the supplier pays for the product to be examined; the results are sent by the testing company directly to Wal-Mart. Wal-Mart then evaluates the test results and informs the supplier of its ranking.

16. (SBU) Quality Assurance Manager Benny Liu said that Wal-Mart has four rankings: "Super," "Approved," "Conditionally Approved," and

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"Failed."

-- The "Super" and "Approved" rankings allow the prospective company to become a Wal-Mart supplier immediately.

-- A "Conditionally Approved" ranking requires an additional audit by Wal-Mart after six months. During the six-month period, Wal-Mart will work with the company to improve quality and safety standards.

-- If the company is unable to meet the "Approved" ranking at the next audit, the company is not allowed to become a Wal-Mart supplier. However, the supplier may request another audit after an additional six months.

-- A "Failed" ranking results in "zero business" with Wal-Mart.

17. (SBU) Quality Manager Benny Liu said that more than 200 QA auditors conduct random audits of the 2,500 suppliers used for its global procurement. These QA auditors also work with suppliers to improve quality and meet safety standards. When an issue arises, Wal-Mart halts procurement of the product but continues to work with the supplier to help it meet Wal-Mart quality and safety standards in the final market.

Working with Suppliers is Key

18. (SBU) Chen and Gray related that working with their suppliers, especially on QA and product safety, was important to Wal-Mart's business success and ensures a stable supply chain. Although Wal-Mart's quarterly training sessions with suppliers are a large investment in time and money, company executives believe it is more cost effective than finding and training a new supplier or suffering a loss in reputation.

Quality Check on Aisle 30, Please

19. (SBU) Checks on product quality and safety continue even after procurement and shipment. Chen and Quality Assurance Manager Benny Liu stated that each Wal-Mart store has 30 associates who conduct spot checks, which include checking dates of products, price,

quality, and safety standards. These associates report to Merchandising when problems arise. "Spot checkers" also receive quarterly training through DVDs, video conferencing, and seminars.

Scandal, Schmandal:
Wal-Mart Confident About Supply Chain

¶10. (SBU) Public Relations Director Jonathan Dong said that he was unconcerned about recent product safety scandals. Other Wal-Mart executives also appeared to have confidence in Wal-Mart's supply chain. Dong acknowledged, however, that Wal-Mart has faced product safety issues in the past. Gray confirmed this, and recounted that just the previous day a Chinese customer had fallen ill after eating a Wal-Mart chicken product. In these instances Wal-Mart accepts responsibility and pays for the customer's medical bills. Wal-Mart also investigates the incident to determine the cause of the problem.

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